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Held at Headquarters, New York, on Thursday, 5 February 2004, at 10 a.m.

Chairman: Ms. Rasi ..... (Finland)

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The meeting was called to order at 10.15 a.m.

Briefing on the *World Economic Situation and Prospects 2004*

1. **Mr. Ocampo** (Under-Secretary-General for Economic and Social Affairs) introduced the *World Economic Situation and Prospects 2004*, which would be released to the public in mid-February. The report had been drafted jointly by the Department of Economic and Social Affairs and the United Nations Conference on Trade and Development (UNCTAD); as of 2005, all the United Nations regional commissions would also have significant input in its preparation. The report concurred with many analysts on the prospects for a broad-based world economic recovery: it predicted that world economic growth would increase from 2 1/2 per cent in 2003 to 3 1/2 per cent in 2004. While the recovery process was clearly led by the United States of America, the economy of China had also become a major locomotive for economic growth at both the regional and international levels. The Chinese economy had been growing very rapidly for the past 25 years; however, its capacity to lead growth had only gradually become apparent. Increased exports to China accounted largely for the current Japanese recovery and were an essential component of growth in other Asian countries.

2. The recovery would extend to every part of the world, although some of the industrialized economies, including those of the United States, Japan and Europe, were lagging and the economies of the Commonwealth of Independent States and Eastern European countries, which had already experienced fairly rapid growth in 2003, would in fact, slow down in 2004. The entire developing world would experience some acceleration in growth, including regions which had not fared well in recent years. Even in Latin America and the Caribbean, which had had the lowest growth rate among the developing countries in 2000, and would also have the lowest rate in 2004, growth acceleration had been significant: it had gone from negative growth in 2002 to positive growth in 2003 to fairly rapid growth by Latin American standards in 2004. Within that context, he cautioned that employment had not recovered as much as gross domestic product and continued to pose a serious problem. Whereas in the latter half of the 1990s and prior to the 2001-2002 recession, key private economic sectors in the United States and, to a lesser extent, Europe, had led economic growth, recovery was now based largely on extremely expansionary fiscal and monetary policies in the United States, Japan and, to some extent, Western Europe. While that trend must be addressed, abrupt reversal of those expansionary policies could be damaging.

3. He also cautioned against growing international imbalances, particularly, the high United States trade deficit, coupled with a very large fiscal deficit, suggesting that the United States might be undergoing financial difficulties. That had led to a major exchange rate correction, which the Federal Reserve Bank of the United States expected to be partially effective at best, and maybe only minimally effective. It might even have the opposite result, since depreciation of the United States dollar had a negative wealth effect on the rest of the world. Ultimately, international imbalances could be corrected only by more balanced economic growth in the world as a whole and by faster growth in the industrialized world, particularly in Europe and Japan. What happened with the fiscal deficit in the United States, on the other hand, would be determined by the policy decisions taken by its Congress and Government.

4. Chapter II of the report, which dealt with international trade and finance, noted that, despite more rapid growth in world trade — it was expected to accelerate to an annual rate of 7.5 per cent and had grown twice as fast as the world's gross domestic product — trade growth was still slower than it had been in the 1990s. That was attributable to a number of factors, including the uncertainties surrounding the Doha Round of multilateral trade negotiations within the framework of the World Trade Organization and the proliferation of regional and subregional arrangements, which weakened the multilateral character of international trade by undermining its most basic principle — that of most-favoured-nation treatment.

5. There had been several positive developments in the area of finance in 2003 and early 2004. Financial flows had begun to return to developing countries and there had been a significant reduction in risk perception; indeed, risk premiums in emerging markets were the lowest they had been since the period before the Asian and Russian crises. Nonetheless, developing countries' net resource transfers continued to be negative because of debt servicing; outflows continued to exceed net capital inflows, which came primarily from foreign direct investment. Official development assistance had slowly begun to rebound from its very

low levels; however, the approximately $16 billion committed at the International Conference on Financing for Development, held in Monterrey, represented only one third of the resources that would be necessary to achieve the Millennium Development Goals. In the area of financial reform, the creation of a multilateral debt framework by the International Monetary Fund (IMF) had been unsuccessful, leaving the world with a major vacuum in that area.

6. **The President** asked the Under-Secretary-General to discuss his expectations for the forthcoming Group of Eight meeting in the light of the concern in Europe over depreciation of the United States dollar.

7. **Mr. Ocampo** (Under-Secretary-General for Economic and Social Affairs) said that the exchange rate was secondary to two other major issues facing the industrialized countries, namely, how to balance growth among them and achieve faster economic growth in Western Europe and Japan, and secondly, how to phase out expansionary policies once recovery was under way. Extremely effective coordination would be needed in order to achieve gradual, but not overly hasty, curbing of United States, Western European and Japanese expansionary policies in order to correct long-term fiscal and trade imbalances without affecting world economic recovery.

8. **Mr. Bernal** (Colombia) asked whether the economic environment for development was expected to improve or deteriorate in 2004.

9. **Mr. Neil** (Jamaica) noted that the expected growth in world trade of 7.5 per cent was attributable to import demand from developing countries, implying growth in those countries' markets. He wondered, however, whether the reverse situation, namely an increased demand in developed countries for developing countries' products, would not be better for developing countries.

10. **Mr. Al-Babal** (Qatar), speaking on behalf of the Group of 77 and China, enquired about the views expressed on depreciation of the United States dollar at the World Economic Forum, held recently in Davos, Switzerland.

11. **Mr. Essel** (Ghana), referring to the Executive Summary of the report, which described the setbacks associated with the war in Iraq and the outbreak of severe acute respiratory syndrome (SARS), asked whether the outbreak of avian influenza in South-East Asia and the culling of large quantities of poultry would have an impact on the world economic recovery.

12. **Mr. Ocampo** (Under-Secretary-General for Economic and Social Affairs), replying to the representative of Colombia, said that certain aspects of the international environment would foster development, for example, the upturn in financial markets and considerably lower risk premiums in two very high-risk areas, Latin America and Eastern Europe. It remained to be seen whether the return of capital would be sufficient to reverse sharply negative resource flows. On the other hand, accelerating trade had had a positive impact on non-oil commodities prices so crucial to developing countries (although commodities prices remained well below their pre-Asian-crisis levels). Since most commodities prices were quoted in United States dollars, they had risen with the depreciation of the dollar; however, when calculated in international currencies, such as the Special Drawing Rights (SDRs) of the International Monetary Fund, those prices remained fairly stable. Commodities prices had also improved as a result of the global economic recovery. Nonetheless, in the least developed regions of the world, growth rates were insufficient to achieve the major Millennium Development Goals. Although African growth was expected to increase to 4.25 per cent in 2004, it was believed that annual growth in Africa would have to reach at least 6 per cent in order to meet Millennium Development Goals.

13. Replying to the representative of Jamaica, he said that China was an example of how import demand in one country could stimulate economic growth in other parts of the world. More than 50 per cent of exports from the Republic of Korea and 11 per cent of Japanese exports went to China. United States exports to China were also increasing rapidly, as were exports from developing countries outside the immediate Asian region. It was true that import demand, if not accompanied by export dynamics could widen the trade deficit, but that had not happened in China thus far.

14. Replying to the representative of Qatar, he said that he had no information on the discussions at the Davos Forum, since he had not attended, but, in any case, as he had indicated earlier, currency corrections would play a very small role in reducing imbalances, for which the real remedy was more balanced growth among the major economies of the world.

That could be achieved in one of two ways — by a slowdown in the United States economy, which would be detrimental to the rest of the world, or by an acceleration of growth in Western Europe and Japan. Clearly, the latter option was the more desirable.

15. Lastly, replying to the representative of Ghana, he said that the impact of SARS on the world economy had actually been quite limited, and that, according to the press, while avian flu had taken its toll on the poultry sectors of the affected countries, it had not had any serious macroeconomic consequences.

16. **Mr. Aho-Glele** (Benin) said that the report apparently made no specific reference to the world's most vulnerable countries, and wondered whether the Under-Secretary-General could inform the Council of their economic prospects for 2004.

17. **Ms. Liu** (China) noted that the report referred to the United States as the driving force for developing countries' economies, and asked how the Under-Secretary-General believed the rest of the world should deal with that situation. She also noted that the report made many references to China's economy, and she wondered what, in the Under-Secretary-General's view, were the main economic problems facing China in the year ahead.

18. **Ms. Spirnak** (United States of America) said that her delegation welcomed the efforts made to integrate the outcomes of the Monterrey International Conference on Financing for Development into the report, as it saw the Monterrey Consensus as a new way to look at the conditions necessary to mobilize the financial resources for economic growth and development. Noting from the report that official development assistance was expected to grow by 31 per cent by 2006 as a result of that Consensus, she said that the United States had recently created the Millennium Challenge Corporation to manage its Millennium Challenge Account foreign aid fund, which would have $1 billion in new aid available for developing countries during 2004.

19. **Mr. Rosenthal** (Guatemala) noted that an understanding of the world economic situation, as provided by the report before the Council, gave members a context for their work, particularly in the light of the Council's forthcoming meeting with the Bretton Woods institutions. The fact that the next report would involve broader participation by the Council's Regional Commissions was a positive development. However, while the forecasts of economic growth and growth in world trade were to be welcomed, the report's assertion that the United States was the main driving force for the global economic recovery was a matter for concern. In the past, world economic expansion had been the result of expansion by all the world's leading economies: Japan, Europe and the United States. He therefore welcomed the fact that the latest meeting of the Finance Ministers of the Group of Seven major industrial countries in Boca Raton was focusing on how all economies could together achieve faster economic expansion along with financial stability.

20. He noted that the forecast economic growth in the developing world would follow three years of poor performance. Although three or four developing countries, including India and China, had developed strongly, the rest of the developing world — particularly countries in Latin America and Africa — had seen three years of virtual stagnation. Consequently, the expected growth in 2004 would not help to close the economic gap in accordance with the Millennium Development Goals.

21. He welcomed the comments made by the representative of the United States regarding the Monterrey commitments. However, although an increase in the level of development assistance aid could be foreseen, no serious progress had been made in terms of trade, and the world's financing goals were still very remote.

22. **Ms. Rosito** (Observer for Brazil) noted that one of the causes of the Asian economic crisis in the 1990s had been the weakness of the regulatory framework. Moreover, in the new millennium, there had already been problems with corporate governance in many countries, and clearly many regulatory problems remained. Moreover, she noted from the report that it was essential to reverse imbalances due to the expansionist fiscal and monetary policies of recent years. She therefore wondered what had been achieved in that regard, and whether the Under-Secretary-General foresaw risks to the world economy from continuing weaknesses in the regulatory framework.

23. **Mr. Neil** (Jamaica) asked whether the Under-Secretary-General could provide more information about the impact of the New Partnership for Africa's Development (NEPAD) on African countries.

24. **Mr. Ocampo** (Under-Secretary-General for Economic and Social Affairs), responding to the question posed by the representative of Benin, noted that the report provided a historic overview of output and trade levels among least developed countries, and that Africa and Asia were expected to show strong economic growth in 2004. However, the next report might well focus more on least developed countries. Addressing the question posed by the representative of China, he said that although the United States was the main driving force for the world economy, China was also a key driving force. Since China's contribution to the world economy was estimated to be 15 per cent, growth in China was clearly an important factor. The world must therefore ensure that China's growth was sustainable. One of China's main problems was the strengthening of its domestic financial system, and he welcomed the positive steps taken by China in that regard.

25. Turning to the questions posed by the observer for Brazil and the representative of Ireland, he noted that the report analysed all items on the agenda of the Monterrey Conference and that consideration of those items would be a major focus of future reports. He agreed with the representative of Guatemala that the poor performance of the western economy since the start of the present decade had resulted in negative consequences with respect to the Millennium Development Goals, and that the task of achieving those goals would consequently become more demanding, especially in Africa, where certain indicators, especially poverty reduction, were lagging behind. With respect to NEPAD, he noted that one of its major innovations was its use of a peer review system — first introduced a number of years earlier by the Organisation for Economic Cooperation and Development (OECD) — and said that he hoped its example would be followed by other organizations.

26. **Mr. Stanislavov** (Russian Federation) noted from the report that there had been a net transfer of financial resources from developing countries of $190 billion in 2002, and that a similar total was expected for 2003. He wondered whether the Under-Secretary-General could suggest a reason for that phenomenon.

27. **Mr. Ocampo** (Under-Secretary-General for Economic and Social Affairs) said it was generally agreed that the impact of the economic crises in Asia and Russia had been a major financial shock for developing countries. The Asian crisis had stopped financial flows to such countries, and risk premiums for developing countries' debt had increased following the Russian crisis. However, there were signs that the situation was improving: financial capital was returning and risk premiums had fallen significantly, to levels seen before the Asian crisis. Due to the negative financial flows, the major source of new financing to developing countries had been direct foreign investment. That investment was now falling, but might recover. The counterpart to the negative net flow of resources was the accumulation of foreign reserves by Asian countries, and especially China. That situation reflected China's strength, but it also reflected the fact that the world economy faced a major financial challenge: the United States' external deficit. For many years, one major problem facing the world economy had been the fact that even when developing countries developed flexible exchange rates, they must also accumulate significant foreign reserves in order to meet the potential risks of world economic volatility. That represented a cost for developing countries, which had to invest some of their savings to accumulate the reserves.

The meeting rose at 11.31 a.m.